

**State of Rhode Island and Providence Plantations**  
**STATE INVESTMENT COMMISSION**

**Regular Meeting April 23, 2008**

**A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, April 23, 2008. The Treasurer called the meeting to order at 9:05 a.m.**

**Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth Goodreau, Deputy General Treasurer for Finance; Ms. Sarah Dowling, Legal Counsel to the Commission; Ms. Michelle Davidson of the Pacific Corporate Group, Alternative Investments Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; and other members of the Treasurer's staff.**

**State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Mr. Treat moved, Ms. Gallogly seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Mr. Treat, and Treasurer Caprio.**

**VOTED: To approve the Minutes of the March 26, 2008 regular meeting.**

**Capital Market Review – Wilshire Associates. Mr. Bensur was not able to attend the SIC Meeting this month. Treasurer Caprio stated that Deputy Treasurer Goodreau would give the Market Review later during the meeting.**

**Alternative Investments Consultant PCG – TPG Capital Fund VI. Ms. Davidson stated that TPG Fund VI is currently targeting aggregate capital commitments in excess of \$15 billion. ERSRI has had a relationship with TPG since 1997, committing over \$45 million in three prior funds. They have a very flexible approach to industries, investment structures and geography, which helps to diversify risk across the portfolio. TPG Capital pursues a broad range of equity and equity-related investments, primarily in large cap companies in North America, Europe, and Asia through acquisitions and restructurings. 50% of Fund VI may be invested outside of North America, increasing international exposure and diversification within the portfolio. TPG Capital has invested \$19 billion in 122 investments over a fifteen year period with achieved net returns of 27% and they have been a top quartile performer. Ms. Davidson recommended that ERSRI commit \$20 million to Fund VI based on the experience and strategy of the team, along with prior performance.**

**Ms. Davidson introduced Kristin Horne from TPG Capital. Ms. Horne stated that TPG has excellent investment judgment, deal skills and portfolio management. She stated that TPG's global platform has**

grown to include several distinct investment disciplines such as buyouts, venture capital, hedge funds, and capital markets vehicles. The experience of the Firm's broad and diverse group of professionals, combined with the collaborative investment environment, provides TPG with additional industry insight, unique sources of deal flow, localized knowledge of international markets, and capital markets expertise.

TPG has sector specialization, meaning they have teams of professionals who focus on certain industry and geographical sectors affording TPG the flexibility to adapt to changing market environments on a global basis. They have twenty four individuals within their operational group who focus 75% to 80% of their time actively pairing with management teams within the portfolio companies to create value through strategic planning, operational productivity and cost reduction initiatives. Ms. Horne stated that more than 50% of TPG's equity appreciation within the Firm's thirty five most successful transactions is directly attributed to operating improvements rather than market-related multiple expansion.

In order to control risk, TPG aims to deploy half of all invested capital in lower operating risk businesses and half in higher operating risk businesses that are underwritten to significantly higher return expectations. They have structured the portfolio to withstand a sustained economic downturn.

**Ms. Horne stated that global private equity growth was unprecedented in the last two years. Over 85% of the growth came from deals larger than \$2 billion driven by the public to private market and dominated by U.S. volumes. The growth was caused by a shift in value from mid cap companies to large cap companies. The cost of capital shifted and the CLO market drove access to additional financing at lower cost with better terms. This enabled TPG to make investments that previously were not accessible to them.**

**Mr. Costello asked if the rates of return will be lower when buying larger public companies as opposed to the smaller private companies. Ms. Horne replied that large cap companies will be held longer, so by definition the IRR may look lower than in the past, but the returns should be comparable and there should be higher multiples of money. Mr. Goodreau alluded to the success of the investment in MEMC and asked if it will be more difficult going forward to find these types of investments. Ms. Horne replied that TPG will continue to look for these opportunities, but each deal has a different investment element which means TPG will need to calibrate the risk differently to ensure a profitable investment. Mr. Reilly asked if Ms. Horne would address the issue of how debt affected ERSRI's rate of return. Ms Horne stated that debt pay-down / recaps did not drive their returns. Returns were driven by IPO's and strategic take-outs.**

**Treasurer Caprio thanked Ms. Horne and asked if anyone had**

questions. The Treasurer then entertained a motion for investment in TPG Partners Fund VI. Mr. Reilly motioned, Mr. Costello and Mr. Gaudreau seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Mr. Gaudreau, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED:** To invest \$20 million in TPG Partners Fund VI, contingent upon satisfactory review and negotiation of investment and legal documents with no material changes to the opportunity as presented.

Treasurer Caprio noted that Constellation Ventures was on the Agenda for this meeting, but the final report for the investment was not available. Therefore, the presentation from Constellation Ventures Fund III will be rescheduled. He then announced that Mr. Morgan Olsson from Nordic Capital was ready to give the presentation regarding Nordic Capital Fund VII. Nordic Capital was not able to attend the March 26, 2008 meeting, but the Commission committed \$20 million to Fund VII at that time, subject to satisfactory presentation at this SIC Meeting.

Ms. Davidson from PCG introduced Mr. Olsson from Nordic Capital. Mr. Olsson stated that the Company was started eighteen years ago with a dedicated focus on the buy-out market in the Nordic Region. The Firm has thirty two investment professionals in six countries and

**will be adding seven to nine professionals by the end of 2008. No Partner has ever left the Firm and there is virtually no turnover within the staff, indicating Nordic's historical success should continue.**

**Prior Funds have invested approximately €3,897 million in fifty six investments. As of December 31, 2007, Nordic has achieved a gross internal rate of return of approximately 75% on realized investments and a multiple of 3.7 times invested capital. Mr. Olsson commented that Fund VII has commitments of €3.3 billion to date, mostly from prior investors. The target of €3.7 billion should be secured by May 2008. Nordic Capital is seeking €600 million of additional commitments from new investors. A final closing of Fund VII will take place on or before June 30, 2008.**

**Mr. Olsson stated Fund VII will invest a minimum of 50% in the Nordic Region; of the remaining 50%, a maximum of 20% may be invested outside Europe. There will be fifteen to twenty investments resulting in ten to fifteen Portfolio Companies. Nordic does not have a particular industry focus, but historically has invested in pharmaceuticals, health care, industrials, and consumer discretionary industries, among others. As the business cycle extended, Fund V and Fund VI have only invested in non-cyclical companies, such as healthcare, as these sectors are less likely to be affected by economic trends. These types of companies now account for over 80% of the portfolio's investment cost. Mr. Olsson then went over the success of each Portfolio Company and stated that four or five of**

them will be exited within one year.

Mr. Olsson explained that the Firm has historically relied on Nordic banks for debt funding. He indicated that Nordic banks are willing to support the types of investments made by Nordic Capital and financing will not be an issue. He also commented that the Northern Europe Buyout Market remains very robust. He thanked the Commission for this new opportunity and their continued support.

Mr. Costello thanked Mr. Olsson for the positive performance of prior funds. He then asked for Mr. Olsson's opinion in regard to the current private equity market. Mr. Olsson replied he felt the media was over reacting in regard to the negativity of the future of private equity. He stated leverage is not the only way that private equity investments gain money. Companies relying on leverage only will not be profitable in the current market environment. The Firms who focus on profit improvement, rather than just leverage, have a greater opportunity to succeed in the current private equity market.

Mr. Reilly stated that companies are paying leverage multiples from nine to ten, which limits growth potential. He asked Mr. Olsson what an average multiple would be for Fund V and Fund VI. Mr. Olsson replied that going above a leverage multiple of six to seven times EBITDA (earnings before interest, taxes, depreciation, and amortization) in debt financing is risky.

**Treasurer Caprio asked Mr. Olsson to expound on non-cyclical versus cyclical investments. Mr. Olsson explained that cyclicity will always affect the market. He does not believe that cyclical investments will be in favor for at least one to two years. The economy was over heated last year which prompted Nordic Partners to look at non-cyclical investments, such as healthcare and utilities. These non-cyclical investments should continue to make healthy returns for the next four to five years. He added that diversity is also a very important element of a profitable portfolio. Treasurer Caprio thanked Mr. Olsson for attending the Meeting.**

**Legal Counsel Report. Ms. Sarah Dowling of Adler Pollack & Sheehan P.C., Legal Counsel to the Commission, stated that the contract for Nordic Fund VII is complete and ready to sign. Treasurer Caprio thanked Ms. Dowling for providing the Commission with an additional summarized report regarding the structure of this contract and all contracts going forward.**

**Deputy Treasurer for Finance report. Mr. Goodreau gave a brief Capital Market Review, as Mr. Bensur, General Consultant to the Commission, was not present. He stated that March was a very volatile month. The closing of Bear Stearns caused extreme volatility during the middle of the month. April has been significantly better. The portfolio held the benchmark for March. International markets continue to under perform; North Pointe continues to lag the benchmark. In general, the portfolio has held policy fairly well. Mr.**



**Goodreau remarked that there was a slight recovery in April and some signs of stabilization. However, the market will continue to be affected by some degree of volatility.**

**Mr. Costello stated that private equity shows a 7% loss for the quarter. He then asked Mr. Goodreau how we attain values on private equity. Mr. Goodreau explained that the quarterly report has a significant lag time and the 7% loss is not an accurate number. He stated that the Investment Staff has been working for weeks on a new electronic report to track private equity numbers more accurately on a monthly basis. Sam Bynum, Investment Audit Manager, takes the distribution and capital call spread sheets from our Investment Staff and reconciles the data against PCG's and State Street Bank's data on a daily basis to ensure the values are accurate. This new procedure has been put in place to comply with the Auditor General's recommendation.**

**Treasurer's Report. Treasurer Caprio stated that there will likely be a change in Retirement Health Benefits as of September 30, 2008. There may be two thousand to three thousand employees retiring at that time, which is at least double the normal number of retirements per year. The unfunded liability will be re-calculated at that time by the Actuaries and the Commission will be kept apprised of these changes, as well as legislative changes regarding the Retirement Board and State Investment Commission.**

**Treasurer Caprio announced the second meeting of the RFP Review Sub-Committee will be on May 5, 2008. He thanked the members for their continuing participation and support.**

**New Business. There being no further new business, the Treasurer entertained  
a motion to adjourn.**

**Ms. Reback moved, Mr. Giudici seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Mr. Gaudreau, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.**

**VOTED: To adjourn the meeting.**

**There being no further business, the meeting was adjourned at 10:25 a.m.**

**Respectfully submitted,**

**Frank T. Caprio  
General Treasurer**